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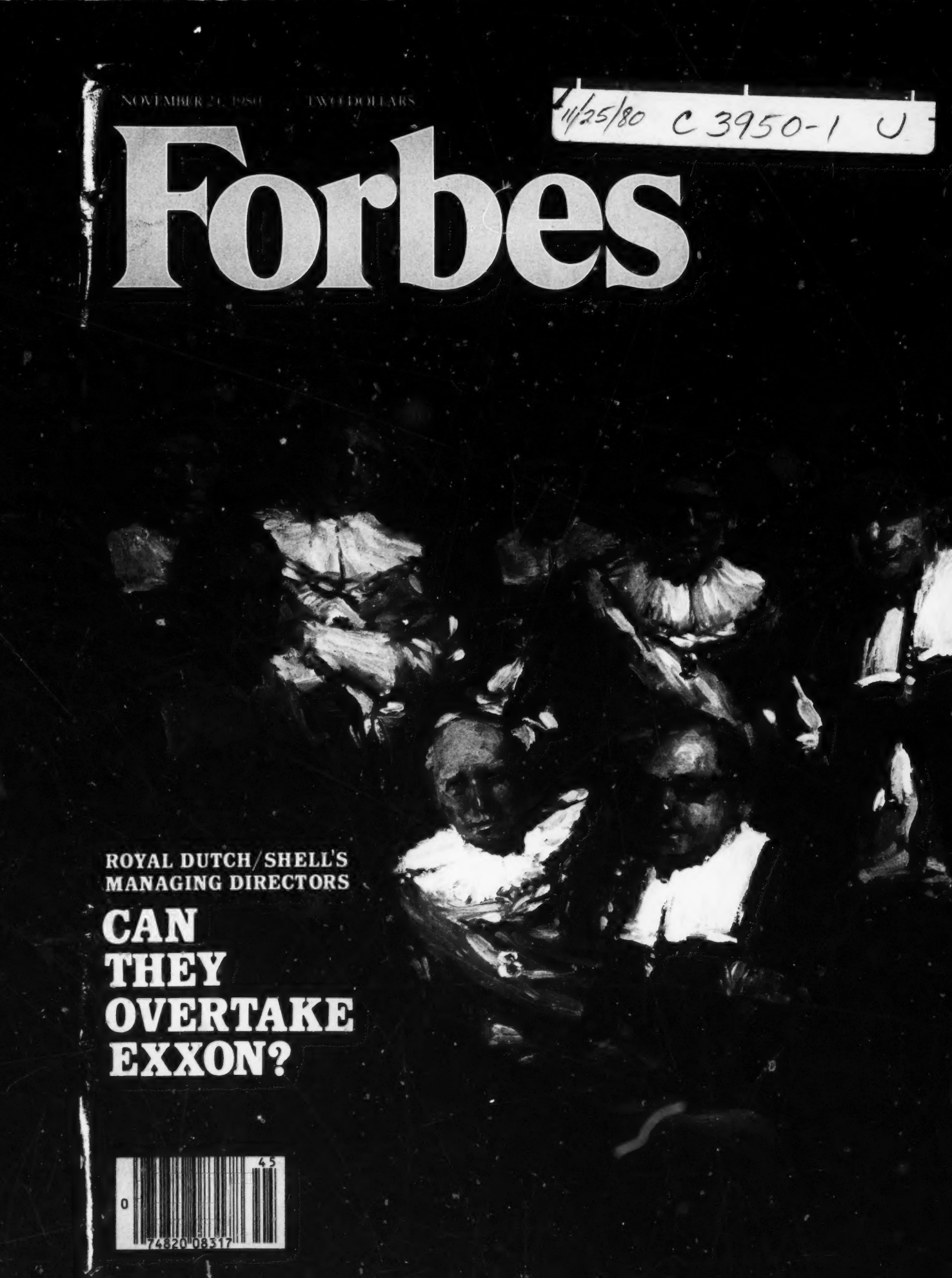

ROYAL DUTCH/SHELL'S MANAGING DIRECTORS

CAN THEY OVERTAKE EXXON?

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Forbes

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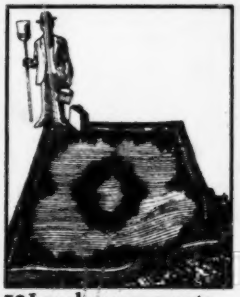

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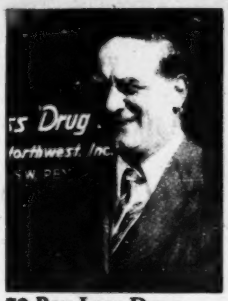

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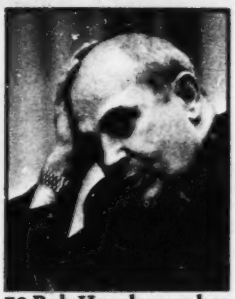

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Trading in stock options is almost as widespread as trading in stocks—and it's quite a bit more exciting.

Stock options come of age

By Steve Kichen

ON OCT. 16, 1980, for the first time in market history, the total volume of stock underlying the options traded exceeded the volume of actual shares traded on the New York Stock Exchange. As the chart on the opposite page shows, even the average daily volume of underlying common shares on the four options exchanges is now approaching that of the NYSE.

Each option is an option to buy or sell 100 shares of common stock at a fixed price (the strike price) on or before a fixed expiration date. An option to buy a stock at a fixed price is a "call" and an option to sell a stock at a fixed price is a "put." The appeal of call and put options is that they offer leverage: They reflect the movement of the underlying stock at a small fraction of the stock price.

What is remarkable about all this option volume is that an organized stock options market did not exist until about seven years ago, even though investors in the U.S. have traded stock options over-the-counter for well over 100 years.

Statistical Spotlight

Trading in options dates at least as far back as the tulip bulb craze in 17th-century Holland. However, in spite of the long history of options, few gave the Chicago Board Options Exchange (CBOE) much chance for success when it first began trading stock options on just 16 common stocks in 1973. In fact, the fledgling CBOE had to buy ad space in the *Wall Street Journal* to keep the investing public abreast of trading activity.

Now the CBOE lists options on 104 common stocks. Combined with the four other options exchanges that followed—the American, Philadelphia, Pacific and Midwest (merged into the CBOE in 1980)—options are now available in over 300 stocks. Naturally, those stocks selected for options are widely held, heavily traded and meet several other financial criteria.

In July 1977 the Securities & Exchange Commission placed a moratorium on expansion of options trading, fearing that its rapid growth might increase the volatility of the securities market itself. Having been satisfied that options trading was not threatening the stability of the market and that the exchanges had adequate controls, the SEC finally lifted its ban this spring, and

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a total of 60 new call options and a smaller number of put options have been made available.

Prices of seats on the CBOE have boomed too. One of the best investments anyone could have made in 1973 was to purchase a $10,000 seat on the CBOE. Recently a CBOE seat went for $160,000—a 1,500% increase.

According to John MacKenzie, director of marketing at Monchik-Weber, a New York systems consulting firm actively involved in options monitoring, the age of enlightenment probably first began with Ed Thorp's book, *Beat the Market*, and with the work of professors Fischer Black and Myron Scholes at the University of Chicago. "A really significant intellectual interest developed in this betting game," says MacKenzie. The Fischer-Scholes options investment model has become to options traders what Benjamin Graham is to many stock traders.

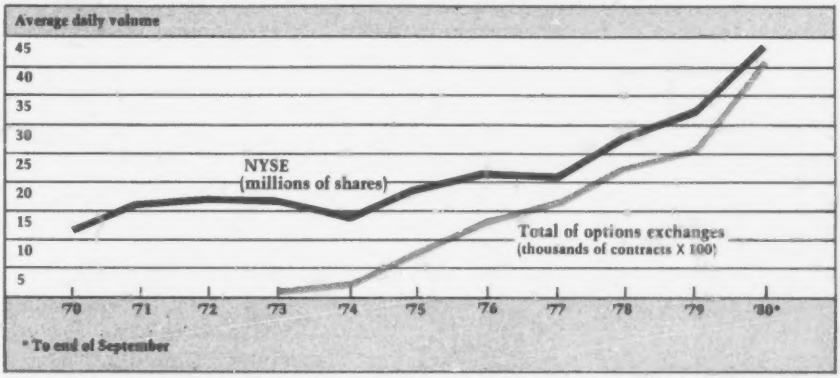
Now the institutions are making greater use of options, thanks largely to a July 1979 regulation by the Department of Labor that permitted managers of funds covered by ERISA greater latitude in the use of options.

Options are used by institutions to generate additional income and protect portfolios against downside risk. For example, if an institution buys 1,000 shares of IBM at 60 and the stock eventually goes up to 70 a share, there is a paper profit of $10,000. But if IBM drops to 50, there is a $10,000 loss.

Using options, the institution could buy the stock at 60 and also "write" (or sell) ten call options at, let's say, $5 per share, with a strike price of $65 a share. By writing the calls there would be an immediate income of $5 per share, or $5,000. If IBM jumped to 70, the holder of the option would be likely to exercise the option and the institution would have to sell the 1,000 shares of IBM at the strike price of $65 per share, $5 below the market price. Since it had already received $5,000 from writing the option, it would still realize a profit of $10,000. Of course, if IBM really rockets upward to, say, 90, the institution would lose out on this action. As long as the option did not expire, the most the institution would receive for its IBM stock would be $65 per share.

The explosion in options trading

In less than ten years the average daily volume of underlying common shares traded through options has come to rival the average daily volume of stocks traded on the New York Stock Exchange. At the rate options trading has expanded, average daily options volume will soon surpass the NYSE.



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Options: positive leverage

In a bull market the leverage inherent in options can provide quite a kicker. From the most recent market low on Mar. 27, 1980 to the latest high on Oct. 16, the 15 options listed below appreciated from 400% to 1,584%—far more than the 99% to 196% shown by the underlying stocks. In March they were the longest-term, closest-to-the-striking-price options available on these stocks. The striking price, of course, is the purchase price of the stock if the option is exercised.

	Stock			Option				
Company	Price Mar 27	Price Oct 16	% change	Month option expires/ striking price	Price Mar 27	Price Oct 16	% change	Oct 16 value of $1 invested in option/stock
Homestake Mining	27 11/16	82	196%	Oct/$30	3 5/16	56⅛	1,584%	$16.94/$2.96
Tandy Corp	32¾	83⅜	155	Oct/ 35	3¾	49¾	1,227	13.27/ 2.55
Mesa Petroleum	22 11/16	54¼	139	Oct/ 25	3¼	29¾	815	9.15/ 2.39
ASA Ltd	37⅛	86	132	Nov/ 40	5⅝	47¼	740	8.40/ 2.32
Fluor	26 5/16	60	128	Oct/ 30	2⅜	30	1,043	11.43/ 2.28
Engelhard Minerals & Chems	25½	57⅞	127	Oct/ 30	4¾	28½	500	6.00/ 2.27
Coastal Corp	18	39¼	118	Dec/ 20	3⅝	20¾	472	5.72/ 2.18
National Semiconductor	19	41⅜	118	Nov/ 20	4⅛	23	458	5.58/ 2.18
Houston Oil & Minerals	19¾	42⅝	116	Oct/ 20	4¾	23¾	400	5.00/ 2.16
Zenith	8	16⅞	111	Nov/ 10	1 1/16	7	559	6.59/ 2.11
Joy Manufacturing	27¼	57¼	110	Nov/ 30	3¾	28½	660	7.60/ 2.10
Seaboard Coast Line[1]	26⅛	53¼	104	Oct/ 29⅜	4 3/16	24	476	5.73/ 2.04
Union Oil of California	23 9/16	47¼	101	Oct/ 25	2½	22¼	790	8.90/ 2.01
Avnet	22	44	100	Nov/ 25	2⅛	18¾	782	8.82/ 2.00
Amerada Hess	20½	40⅞	99	Nov/ 22½	2¾	18⅜	568	6.68/ 1.99

[1]On 11/1/80 merged with Chessie System into CSX Corp.

Source: Dean Witter Reynolds, Inc.

However, if IBM dropped to 50, half of this $10 drop would be covered by the $5 per share received from writing the option. And if IBM stayed right around the original 60, the option would probably not be exercised. Thus, the institution would still have the $5,000 income from writing the option, dividend income from IBM and possession of 1,000 shares of IBM to boot. Although the option does place a ceiling on the upside potential, in these uncertain times many a portfolio manager is willing to limit potential gains just to cover possible losses.

Many options are finally exercised, so the growth in options volume is feeding growth in stock volume which in turn can trigger other options.

In the recent bull markets, the options buyers have been doing quite well. Some of the gains have been spectacular. Look at Homestake Mining. From the market low on Mar. 27 to the market high on Oct. 16, the option expiring in October with a $30 strike price went from 3 5/16 to 56⅛. That's a 1,584% jump, *vs.* only 196% for Homestake common. That's what the positive leverage in options is all about.

But there is negative leverage as well, which is why most of the real options pros advise against putting too much of your funds in options. The table below shows what can happen when the underlying common stock falls out of favor. A $10,000 investment in the Burroughs October option with a $70 strike price was worth about $100 on Oct. 26.

The record option volume in October indicates that the public is playing the options game with enthusiasm. At least until the next major market decline, options are where the action is.

Options: negative leverage

From the market low on Mar. 27, 1980 to the market high of Oct. 16, most stock options performed extremely well. Mainly because of disappointing operating results and forecasts, the depreciation on the following 14 options, from 53% to 99%, was much greater than that of the underlying common stock. The nine-month Coca-Cola option was an exception.

	Stock			Option				
Company	Price Mar 27	Price Oct 16	% change	Month option expires/ striking price	Price Mar 27	Price Oct 16	% change	Oct 16 value of $1 invested in option/stock
Burroughs	63¼	57¼	–9%	Oct/$70	5	1/16	–99%	$0.01/$0.91
Squibb	28¼	26¾	–5	Oct/ 30	3½	1/16	–98	0.02/ 0.95
Ford Motor	28⅛	26⅞	–4	Dec/ 30	2½	1	–60	0.40/ 0.96
Blue Bell	30¾	29¾	–3	Oct/ 35	3⅜	1/16	–98	0.02/ 0.97
General Dynamics	67½	66¼	–2	Nov/ 70	10	2⅛	–79	0.21/ 0.93
Greyhound	14⅝	14½	–1	Oct/ 15	2⅜	1/16	–97	0.03/ 0.99
McDonnell Douglas	36¾	36⅜	—	Nov/ 40	6¼	13/16	–87	0.13/ 1.00
UAL	16⅞	17⅜	3	Nov/ 20	2¼	⅜	–83	0.17/ 1.03
Boeing	36 5/16	37½	3	Nov/ 40	5 1/16	1¾	–66	0.35/ 1.03
Black & Decker Mfg	18⅜	19¼	5	Nov/ 20	2⅝	⅝	–76	0.24/ 1.05
American Tel & Tel	48	51	6	Oct/ 50	2	15/16	–53	0.47/ 1.06
Sears, Roebuck	15¼	16¼	7	Dec/ 20	⅝	⅛	–80	0.20/ 1.07
Commonwealth Ed	17⅝	18⅞	7	Nov/ 20	13/16	¼	–69	0.31/ 1.07
JC Penney	20⅞	22⅜	7	Nov/ 25	1¼	⅜	–70	0.30/ 1.07
The Coca-Cola Co	29⅜	31⅝	8	Nov/ 30	3	3⅜	13	1.12/ 1.08

Source: Dean Witter Reynolds, Inc.

With double-digit returns on commercial paper and T-bills, many financial managers have found it more attractive to build up their cash than to invest money in new capital projects.

Swimming in cash

Statistical Spotlight

By Steve Kichen

DONALD DUCK's rich Uncle Scrooge provided many of today's bright young M.B.A.s with their very first lesson in economics. Scrooge McDuck, you may recall, had so much cash that he used to swim in it. Trouble was, Scrooge didn't have much chance to enjoy his wealth because he had to spend most of his time guarding his fortune. Scrooge discovered that a large cash hoard attracts the attention of outsiders.

Scrooge's money was a drop in the bucket compared with the $17.5 billion in cash and equivalents held by the 85 companies on the list below. Cash as a percentage of current liabilities for each of these companies is greater than 50%. There has been a definite increase in such companies. Economic uncertainty and high interest rates have caused financial managers to have second thoughts about capital spending. While waiting for a recovery, they can earn around 12% on commercial paper and T-bills.

But as they well know, building up a cash hoard can be a risky business. P. Daniel Claude, vice president and treasurer of Servicemaster Industries, explained why he wouldn't give September balance sheet figures to FORBES: "I don't want to be in an article that points out that we have a lot of cash, because that simply makes us a target for takeover."

Subaru of America, the U.S.-based distributor of Japanese-built Subaru automobiles, can breathe a little easier with Fuji Heavy Industries as a 49% stockholder, even though Subaru of America has over $36 million in cash and equivalents. That's 42.8% of current assets and 73% of current liabilities. There is no long-term debt. And in the last FORBES Annual Report on American Industry, Subaru of America ranked as the most profitable major U.S. company over the past five years. At its current price of around 15, Subaru of America has over $6 in cash per share. Yet it sells for a multiple of less than 6. It's enough to make would-be acquirers drool.

By the same token, Schlumberger has more than $1 billion in cash and equivalents. But it is highly unlikely that someone will make a pass at a company whose shares already trade at a P/E of 24.

Some companies seem to be perennial members of our cash-rich lists. Walt Disney's amusement parks throw off wads of cash, for example. The company has insignificant amounts of long-term debt and a modest payout ratio of around 17%. This has meant that Disney can finance almost all its growth internally. As one of the richest companies in the country, whose shares trade at 11 times earnings and are widely held, Disney could be a ripe acquisition target.

Then there are the companies for whom the current cash glut is only a temporary phenomenon. Laclede Gas, for one, has very seasonal operations. As the winter heating season ends, Laclede has a large cash inflow as customers pay up their winter bills. But demand for gas drops off in the summer at the same time that the company must support its fixed costs and pay suppliers for the gas it needs to stockpile for the next winter. Of course, improved operations help build up cash. As recently as 1978 Sherwin-Williams had just $32 million in cash. This year it has $103 million, thanks to a shutdown of inefficient operations, improved management of internal cash flow and the Dutch Boy paint line acquisition.

Cash hoards often aren't around for long. If you want to acquire National Gypsum for its $86 million in cash, you'd better move soon. As Controller Axel Swanson noted, "By the end of the year more than half of our cash will be gone."

Cash-rich companies

The 85 companies listed below—ranked by percentage of cash and equivalents to current liabilities—hold over $17 billion in cash and equivalents.

Company/industry	Recent price	Cash & equivalents[1] (mil)	Cash as % of current assets	Cash as % of current liabilities	Cash as % of long-term debt	Latest 12-month earnings per share	Cash per share	Book value per share	Latest balance sheet
Resorts International/gambling and hotels	27⅜	$196.3	87.4%	459.7%	164.1%	$5.87	$17.78	$18.79	June
Weis Markets/grocery stores	27⅞	82.1	68.8	368.1	NM	3.35	9.01	18.60	Sept
Petrie Stores/retail	33⅝	56.7	42.0	256.6	NM	3.40	4.18	14.66	July
Walt Disney Productions/recreation	42⅞	327.0	67.4	251.5	NM	4.14	10.11	32.13	June

[1]Cash and equivalents = cash + marketable securities and short-term investments. [2]Canadian company; figures are in Canadian dollars. NM: Not meaningful because company has either no debt or insignificant amounts of debt.

Cash-rich companies

Company/industry	Recent price	Cash & equiv-alents[1] (mil)	Cash as % of current assets	Cash as % of current liabil-ities	Cash as % of long-term debt	Latest 12-month earnings per share	Cash per share	Book value per share	Latest balance sheet
Maytag/home appliances	26⅝	$ 55.0	41.9%	188.1%	NM	$ 3.02	$ 4.13	$12.80	June
Falconbridge Nickel Mines Ltd[2]/mining	116	278.5	46.8	185.3	97.4%	19.69	55.93	98.61	Sept
Tecumseh Products/climate-control equip	67	88.7	34.5	164.2	NM	7.78	16.22	54.33	June
Hilton Hotels/hotels	40¼	124.0	68.0	157.4	100.4	3.91	4.71	14.79	June
Kaiser Steel/integrated steel	43½	268.0	54.1	138.9	87.6	17.28	38.17	72.48	Sept
Thomson Newspapers Ltd[2]/publishing	22	57.6	54.3	133.6	143.6	1.40	1.17	2.54	June
St Regis Paper/paper and forest prods	34	498.0	45.7	128.7	66.8	5.24	15.45	37.00	Sept
Roadway Express/trucking	37¾	231.0	72.6	126.2	NM	3.37	11.79	15.87	Sept
American Home Products/propr drugs	26⅝	517.5	31.7	117.8	NM	2.75	3.32	7.83	Sept
Northwestern Steel & Wire/spec steel	24⅜	63.4	37.0	117.0	NM	3.03	8.45	33.44	July
Illinois Tool Works/building hardware	27½	68.0	35.1	108.8	NM	3.38	5.56	20.15	Sept
Tyco Laboratories/precision instruments	43¾	59.5	35.9	105.4	84.0	6.90	14.34	22.91	Aug
Masco/home fixtures	30⅜	108.0	24.4	103.9	34.8	2.90	4.39	10.40	June
Syntex/ethical drugs	57¼	179.4	42.4	102.7	166.7	4.28	10.34	19.68	July
General Portland/cement	22⅞	36.7	39.3	102.4	59.5	4.06	5.30	25.06	Sept
Clark Oil & Refining/gasoline marketing	46¼	192.7	58.5	101.1	496.6	12.12	26.75	30.18	Sept
Manitowoc/construction machinery	22½	57.4	42.8	100.9	NM	2.36	5.37	12.45	Sept
North American Coal/coal	38¾	60.4	49.1	100.3	15.3	3.81	18.08	24.20	June
Republic Corp/multicompany	27½	34.2	28.2	100.2	65.4	4.44	12.82	30.90	July
Adolph Coors/brewing	19⅛	120.0	35.4	100.0	NM	2.04	3.43	19.71	June
Communications Satellite/telecomm	40⅞	48.2	44.3	98.8	855.6	4.51	6.02	50.69	Sept
Alexander & Baldwin/sugar	40½	80.2	44.7	96.9	43.8	6.92	8.80	32.79	Sept
Louisiana Land & Explor/oil & gas prod	58½	170.0	55.0	94.4	161.9	4.54	4.48	18.20	Sept
St Joe Minerals/coal & metals	70⅞	219.6	40.3	94.2	43.7	4.23	9.76	26.26	Sept
Consolidated Papers/paper products	30	37.4	27.1	91.4	145.0	4.88	3.49	24.98	Sept
National Gypsum/building materials	23⅛	86.6	22.0	88.1	61.5	3.56	5.23	28.48	Sept
Parsons Corp/construction	50¼	115.3	54.8	87.8	539.2	2.13	9.48	8.63	Sept
NVF/steel	4¼	334.3	47.9	87.2	35.7	0.45	4.38	2.07	June
Ametek/precision instruments	28½	40.7	28.1	82.9	75.7	2.01	3.78	11.27	Sept
American Broadcasting Cos/broadcasting	30¾	210.0	26.5	81.7	107.7	5.41	7.50	24.41	June
Hudson Bay Mng & Smelting Ltd[2]/mining	38¼	121.0	34.8	81.2	96.0	4.49	11.98	32.84	June
Rio Algom Ltd[2]/uranium mining	39⅜	100.7	23.5	80.0	101.4	6.80	7.08	32.07	June
Kelly Services/temp office personnel	32½	16.5	26.1	78.9	NM	3.28	3.52	13.62	June
Servicemaster Inds/health-care services	31¼	8.0	25.0	75.6	NM	1.30	0.86	3.96	June
Bandag/tire & rubber	23½	31.8	20.2	75.4	255.5	2.16	2.67	11.79	Sept
Norfolk & Western Railroad/railroad	44¾	258.9	47.3	74.4	53.0	6.56	8.08	47.75	Sept
Natomas/oil & gas	38¼	258.0	55.2	74.3	64.5	3.90	4.99	12.55	June
Media General/publishing	32½	23.2	30.2	73.9	63.7	3.89	3.24	15.59	Sept
Subaru of America/automotive	15⅛	36.3	42.8	73.0	NM	2.55	6.05	6.29	July
Redman Industries/mobile homes	9⅞	23.1	44.8	72.8	309.0	0.82	2.50	4.64	Sept
DeSoto/specialty chemicals	14¼	23.5	24.2	70.6	80.2	2.36	4.26	17.10	Sept
Missouri Pacific/railraod	86¼	295.0	49.9	70.5	29.0	11.18	19.00	45.02	Sept
Schlumberger, Ltd/oilfield services	110⅝	1,102.0	40.3	70.2	255.1	4.56	5.78	12.78	June
Boeing/aerospace	34½	2,173.0	55.0	69.9	NM	5.94	22.55	21.65	June
Clorox/household products	10⅛	64.5	32.1	69.7	173.4	1.44	2.80	7.84	June
Reeves Brothers/textiles	32¾	25.6	18.7	69.6	100.6	6.74	11.11	51.63	Sept
Bliss & Laughlin Industries/tools	15	17.7	18.0	69.4	57.1	2.40	2.46	14.65	June
Laclede Gas/natural gas	19⅞	36.8	37.8	67.4	32.0	3.62	8.43	26.86	June
Placer Development/mining	24⅛	58.6	38.8	67.0	46.1	2.45	1.61	10.15	June
Chemed/chemical	39½	37.7	22.6	66.6	NM	2.90	3.79	15.84	Sept
Nalco Chemical/chemical	44½	49.2	24.0	66.0	427.8	3.32	2.47	14.09	June
Standard Oil of Ohio/oil & gas retailing	66¾	1,880.7	53.5	65.8	60.0	7.30	7.66	12.58	Sept
Schering-Plough/drugs	39⅜	345.0	30.1	65.0	NM	4.58	6.50	20.63	June
Church's Fried Chicken/fast foods	25⅞	21.6	57.0	64.9	156.5	2.93	1.72	11.12	Sept
Federal Paper Board/packaging	28	33.4	21.2	63.9	20.1	3.88	4.61	24.15	Sept
Westvaco/packaging	34¼	89.7	25.4	63.6	34.1	5.31	5.31	35.96	July

[1]Cash and equivalents = cash + marketable securities and short-term investments. [2]Canadian company; figures are in Canadian dollars. NM: Not meaningful because company has either no debt or insignificant amounts of debt.

Cash-rich companies

Company/industry	Recent price	Cash & equivalents[1] (mil)	Cash as % of current assets	Cash as % of current liabilities	Cash as % of long-term debt	Latest 12-month earnings per share	Cash per share	Book value per share	Latest balance sheet
Premier Industrial/ind maint prods	36¼	$ 19.4	17.0%	63.4%	NM	$3.07	$1.87	$10.20	Aug
NCH/specialty chemicals	24⅜	42.5	25.3	63.2	988.4%	2.68	3.95	12.82	July
Electronic Data Systems/computer svs	31⅝	26.4	29.6	62.5	181.4	2.11	1.88	10.33	June
Jack Eckerd/drugstores	36¼	75.7	19.9	62.0	757.0	2.92	3.20	16.22	Aug
Eastman Kodak/photography	68½	1,256.5	24.4	61.8	NM	7.07	7.79	35.19	Sept
Intl Flavors & Fragrances/cosmetics	20⅝	53.2	18.3	61.5	NM	1.79	1.45	8.38	June
General Host/food processing	17⅞	29.1	24.8	60.9	33.9	7.83	10.35	28.44	June
Butler Manufacturing/building	27¼	28.9	18.3	60.8	90.9	3.37	5.21	27.68	Sept
Gulf Resources & Chemicals/metals	22⅛	69.1	24.1	60.4	28.9	1.91	8.99	15.91	June
Medtronic/health-care products	43¼	38.8	20.2	59.8	373.1	2.63	2.52	11.19	July
Kerr Glass Mfg/glass containers	11½	25.3	20.6	58.3	34.9	1.67	6.36	21.06	June
Intl Paper/paper & paper prods	42	400.0	26.6	57.9	42.6	5.24	8.13	52.96	June
Playboy Enterprises/publishing	15	71.4	42.9	57.5	363.5	1.31	7.59	9.83	June
Cross & Trecker/machinery	34¼	52.2	23.7	56.9	339.0	2.81	4.21	12.02	June
Canadian Pacific Ltd[2]/railroad	51¾	1,392.0	36.0	55.7	49.3	7.66	19.42	41.17	June
Sherwin-Williams/paints	38¾	103.0	20.0	55.4	45.6	5.25	21.13	54.08	June
Moore McCormack Res/transportation	48¼	46.6	28.4	55.1	16.9	8.20	8.17	48.98	June
Ampco-Pittsburgh/metal products	28½	30.5	20.6	54.2	32.9	4.95	10.58	27.45	June
Richardson-Merrell/propr & ethical drugs	29⅛	152.0	26.5	54.2	186.0	3.56	6.56	18.47	June
GD Searle/ethical drugs	20⅜	267.0	39.1	54.2	291.2	1.76	5.06	9.17	June
Teledyne/multicompany	187¾	200.4	27.3	53.6	31.6	20.95	14.55	72.38	Sept
Bristol-Myers/toiletries & drugs	46	325.0	21.9	53.5	275.4	3.94	4.95	15.72	June
Norton Simon/food processing	16⅝	447.0	23.6	53.4	68.3	2.57	9.31	20.38	June
Newmont Mining/metals	54¾	108.0	23.8	53.2	71.5	8.83	4.22	29.19	June
Iowa Beef/beef packing	44¼	54.7	20.3	53.1	66.6	4.87	5.58	27.53	July

[1]Cash and equivalents = cash + marketable securities and short-term investments. [2]Canadian company; figures are in Canadian dollars. NM: Not meaningful because company has either no debt or insignificant amounts of debt.

Pension funds are buying bricks and mortar. Is it the can't-lose investment of the Eighties—or just the greater fool theory?

One-decision real estate?

By Howard Rudnitsky

PENSION FUND MANAGERS—like most investors—follow the herd. In the Sixties, these professional money men thundered into one-decision growth stocks such as Avon and Xerox. Then came the Seventies, and index funds were all the rage. Now, the peer pressure involves yet another can't-miss opportunity: real estate.

Over the past two years, pension funds have anted up more than $4 billion in cash to buy office buildings, shopping centers and industrial parks from California to Massachusetts. Operating largely through a handful of pooled investment funds, they now own more than $6 billion worth of real estate. That, of course, is a mere 2½% of the $230 billion held in bulging private pension portfolios, but property investments are by far the fastest-growing segment. "They're where the action is," says James Trucksess, a Citibank senior vice president. "When fund managers come to talk to our investment people today, the first thing they ask about is real estate—not stocks or bonds."

Not surprisingly, scores of real estate professionals are scrambling to help cash-rich pension investors get a piece of the action. Prudential Insurance Co. got the ball rolling ten years ago when it launched its pioneering Property Investment Separate Account (PRISA), which operates much like an open-end mutual fund for institutional property investments. This gives fund managers, who may ante up as little as $100,000 to buy in, the diversification and liquidity—at least in theory—that are lacking in individual real estate investments. Also, it gives Prudential a burgeoning source of fee revenues: PRISA will take in over $25 million this year for managing its $2 billion portfolio.

Such success has attracted scores of competitors, and now hardly a month goes by without yet another insurance company expanding its pension fund real estate operations. Phoenix Mutual Life, for example, just jumped on the bandwagon and set up a pooled real estate fund of up to $50 million, and there are rumors that Connecticut General may soon launch a similar venture. Meanwhile, late-starting Metropolitan Life, which recently paid a record $400 million for New York's Pan Am Building, is